

SECTION VIII - INTERIM FINANCIAL REPORTING

INTERIM FINANCIAL REPORTING

THE NEED FOR REPORTS IN ADDITION TO THE ANNUAL REPORT

Most of accounting literature dealing with financial reports speaks to and illustrates the form of various reports which are prepared annually. Annual financial reporting recognizes the responsibility of school districts to make an annual accounting of their stewardship to taxpayers, creditors, other governmental organizations and other interested parties. But school districts also need meaningful interim financial reports because such information is critical to the management of any school system. Such reports must, of course, serve a purpose and not exist merely as an end unto themselves. Monthly reports are required by SDCL 13-8-28 and 13-8-35.

THE ENVIRONMENT—SOME COMPLICATING FACTORS

Before we proceed to look at the kinds of reports that may be useful, it may be helpful to understand the realities of the environment in which such reports are prepared and used. The following six factors appear to be most pertinent:

1. Accrual versus cash basis of accounting
2. Timeliness is essential
3. Complex fund structure
4. Follow-up on revenues
5. Controllability of expenditure
6. Variety of users

Accrual Versus Cash Basis of Accounting:

It is critical that those who manage the affairs of school districts have information they can understand and rely upon. The annual financial statements will be prepared on the modified accrual or full accrual basis of accounting, depending upon the fund type. If interim reports are prepared on a different basis of accounting, such as cash, these reports should be clearly labeled as such.

Timeliness is Essential:

Interim financial statements must be prepared timely. If a report package is overly detailed it may be unrealistic to expect it to be prepared in time to be useful.

Complex Fund Structure:

Numerous funds make interpretation of the related interim financial statements difficult at best, and authoritative literature discourages the use of combined financial statements for interim financial reporting, emphasizing rather the separate legal character of each fund and the need for separate reporting for each.

The separate identity of each fund should be maintained for interim financial reports although possibilities exist for supplementing such separate financial statements with summary data on a combined basis.

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Follow-up on Revenues:

In the short run, the collection of the principal sources of revenue for public schools may effectively be beyond the control of school district officials. Reports on revenues may be limited in their usefulness to helping management to collect money faster or in greater abundance; their principal purpose would be providing information on how much has been (and is expected to be) collected.

Controllability of Expenditures:

Most expenditures also are relatively uncontrollable as many school expenditures, such as contract salaries, are fixed, at least in the short term.

Similarly, it is often not feasible to make significant cutbacks in other services without eliminating or scaling down planned programs. Certain levels of costs for operating and maintaining schools remain constant, irrespective of the extent to which particular programs are curtailed. If reports on expenditures during the year are prepared it is essential such reports focus appropriate attention on a comparison of budgeted expenditures to actual expenditures.

Variety of Users:

Information needs vary from one individual group to another, and the specific financial reports which will satisfy those needs vary accordingly. Reports, if they are to be useful, must answer specifically defined needs of a particular user. The format and extent of reports should be designed to meet particular needs.

INTERIM REPORTS—HOW CAN THEY BE USEFUL

The balance of this section discusses a format for interim financial statements and provides some explanations where they seem necessary. This discussion is divided into three categories to correspond with the principal user groups, although many of the principles discussed for one group may be applicable to other groups.

The Administration:

An important user group is school superintendents, principals and other administrators who are the people making many day-to-day financial decisions and have a need for reliable information.

Administrators usually need information such as appropriately detailed year-to-date statements of budgeted and actual revenue and expenditures. School districts should prepare meaningful budgets of revenue and expenditures on a monthly basis, and projections of requirements for the balance of the year should be made. The reporting format will vary according to specific needs.

The Public:

Public awareness of and attention to school activity is intensified. However, a realistic appraisal of the public's needs indicates routine financial reports can perhaps be kept to a minimum. If anything, the public likely wants to know whether there are any major deviations from the budget which has been approved by their elected officials (the board of education). For

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example, unanticipated reductions in state and federal aid programs may necessitate corresponding cutbacks in programs or major unanticipated expenditures may be required. Illustration 1 provides an example of the kind of report that might be prepared periodically for the benefit of the public. It represents an updated version of the budget together with explanations for major changes from the budget originally adopted.

The Board of Education:

Board members require information peculiar to their position. Simply stated, data should be provided which board members need to help make decisions.

Board members usually need summarized information with respect to three kinds of data:

1. Budgeted and actual revenues
2. Budgeted and actual expenditures
3. Projected surpluses or deficits

Illustrations 3 and 4 are suggested formats for reporting on budgeted and actual revenue. These reporting formats deal with each fund separately and provide only such information as is likely to be useful to the board. The number of line items should be restricted to those that may be meaningful to the board. In Illustration 3, for example, there are ten line items, many of which represent combinations of separately budgeted and accounted for elements of revenue. The fundamental purpose of this report is to update the previously adopted revenue portion of the budget so board members have a current view of what is likely to happen.

Illustrations 5 and 6 are similar formats for reporting budgeted and actual expenditures. Again, two principles of importance are (1) the number of line items reported should be restricted to those levels of detailed information which board members need, and (2) reporting actual data is useful only in helping to project the future.

Illustration 2 is a simple report, by fund, which carries forward from the applicable revenue and expenditure projections the current view of anticipated revenue and expenditures for the year and the resultant surpluses or deficits. It tells the reader where each fund will be at the end of the year.

CONCLUSION

Interim financial reports should contain enough information to do the job; namely, to assist management in the operation of the school district. The examples of financial reports presented in this section are not all-inclusive of the ones that can be prepared. Detailed information should be used to supplement regular reports only when it is needed.

The administration has a responsibility to itself and to the taxpayers to operate within its budget whenever possible and to bring necessary information to the attention of the board of education as quickly as possible. It is the corresponding responsibility of the board to ensure that the public is kept informed.

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ILLUSTRATION 1

OUR SCHOOL DISTRICT SUMMARY FINANCIAL REPORT FOR THE MONTH OF DECEMBER 20XX FISCAL YEAR ENDING JUNE 30, 20XX

Fund	As We Originally Budgeted			As We Now Project		
	Revenue	Expenditures	Fund Balance 6/30/XX	Revenue	Expenditures	Fund Balance 6/30/XX
General	\$324,450.00	\$231,450.00	\$93,000.00	\$327,350.00	\$236,000.00	\$91,350.00 (1)
Capital Outlay	240,500.00	130,500.00	110,000.00	242,300.00	136,000.00	106,300.00 (2)
Special Education	8,300.00	5,500.00	2,800.00	8,650.00	5,350.00	3,300.00 (1)
Bond Redemption	26,650.00	14,875.00	11,775.00	27,580.00	14,875.00	12,705.00 (3)
Food Service	<u>70,000.00</u>	<u>60,000.00</u>	<u>10,000.00</u>	<u>72,250.00</u>	<u>61,200.00</u>	<u>11,050.00 (4)</u>
TOTALS	<u>\$669,900.00</u>	<u>\$442,325.00</u>	<u>\$227,575.00</u>	<u>\$678,130.00</u>	<u>\$453,425.00</u>	<u>\$224,705.00</u>

- (1) Approximately 40 and 60 percent of budgeted expenditures for the General and Special Education Funds, respectively, must be on hand at June 30 to alleviate the need for the school district to borrow money during the next school year. (40% of 236,000 = 94,400) (60% of 5,350 = 3,210)
- (2) A balance of \$110,000 was planned at June 30 to provide for phase 2 of the building program.
- (3) The bonding agreement provides that the balance at June 30 should be sufficient to pay one year's principal and interest payments.
- (4) A balance of \$10,000 is necessary at June 30 to provide for future replacement of equipment.

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ILLUSTRATION 2

OUR SCHOOL DISTRICT SUMMARY STATUS OF ALL FUNDS AT DECEMBER 31, 20XX AS PROJECTED TO JUNE 30, 20XX

	Total Revenue	Total Expenditures	Fund Cash Balance 6/30/XX
Fund:			
General	\$327,350.00	\$236,000.00	\$91,350.00
Capital Outlay	242,300.00	136,000.00	106,300.00
Special Education	8,650.00	5,350.00	3,300.00
Bond Redemption	27,580.00	14,875.00	12,705.00
Food Service	72,250.00	61,200.00	11,050.00
TOTALS	<u>\$678,130.00</u>	<u>\$453,425.00</u>	<u>\$224,705.00</u>

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ILLUSTRATION 3

OUR SCHOOL DISTRICT SUMMARY OF BUDGETED AND ACTUAL REVENUE Six Months Ended December 31, 20XX

	Total 20XX-XX	Actual Year to Date	Current Estimate of Additional Receipts for the Year	Projected Total for the Year	Projected Total is More (Less) Than Budget
General Fund:					
Beginning Balance	\$113,000.00	\$114,000.00	\$	\$114,000.00	\$1,000.00
Revenue From Local Sources:					
Taxes	160,000.00	72,000.00	90,000.00	162,000.00	2,000.00
Tuition	5,000.00	4,600.00		4,600.00	(400.00)
Transportation Fees	2,000.00	1,800.00	400.00	2,200.00	200.00
Earnings on Investments	12,000.00	6,200.00	5,600.00	11,800.00	(200.00)
Pupil Activities	15,000.00	6,350.00	8,000.00	14,350.00	(650.00)
Other Revenue from Local Sources	1,000.00	250.00	500.00	750.00	(250.00)
Revenue from Intermediate Sources	3,000.00	1,400.00	1,800.00	3,200.00	200.00
Revenue from State Sources:					
State Aid	10,000.00	3,000.00	8,000.00	11,000.00	1,000.00
Revenue from Federal Sources:					
Chapter I	3,450.00	1,650.00	1,800.00	3,450.00	
Total General Fund	<u>\$324,450.00</u>	<u>\$211,250.00</u>	<u>\$116,100.00</u>	<u>\$327,350.00</u>	<u>\$2,900.00</u>

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ILLUSTRATION 4

OUR SCHOOL DISTRICT SUMMARY OF BUDGETED AND ACTUAL REVENUE Six Months Ended December 31, 20XX

	Total 20XX-XX	Actual Year to Date	Current Estimate of Additional Receipts for the Year	Projected Total for the Year	Projected Total is More (Less) Than Budget
Capital Outlay Fund:					
Beginning Balance	\$200,000.00	\$201,000.00	\$	\$201,000.00	\$1,000.00
Taxes	40,000.00	18,000.00	23,000.00	41,000.00	1,000.00
Other Revenue	500.00	200.00	100.00	300.00	(200.00)
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Total Capital Outlay Fund	\$240,500.00	\$219,200.00	\$23,100.00	\$242,300.00	\$1,800.00
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Special Education Fund:					
Beginning Balance	\$3,000.00	\$2,900.00	\$	\$2,900.00	\$(100.00)
Taxes	5,000.00	2,250.00	3,400.00	5,650.00	650.00
Other Revenue	300.00	100.00		100.00	(200.00)
	-----	-----	-----	-----	-----
Total Special Education Fund	\$8,300.00	\$5,250.00	\$3,400.00	\$8,650.00	\$350.00
Bond Redemption Fund:					
Beginning Balance	\$10,000.00	\$10,000.00	\$	\$10,000.00	\$
Taxes	15,000.00	6,750.00	9,100.00	15,850.00	850.00
Interest on Investments	1,500.00	700.00	900.00	1,600.00	100.00
Other Revenue	150.00	60.00	70.00	130.00	(20.00)
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Total Bond Redemption Fund	\$26,650.00	\$17,510.00	\$10,070.00	\$27,580.00	\$930.00
Food Service Fund:					
Beginning Balance	\$14,000.00	\$13,800.00	\$	\$13,800.00	\$(200.00)
Food Service Sales	50,000.00	23,500.00	29,000.00	52,500.00	2,500.00
Revenue from Federal Sources	5,000.00	2,000.00	3,100.00	5,100.00	100.00
Other Revenue	1,000.00	400.00	450.00	850.00	(150.00)
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Total Food Service Fund	\$70,000.00	\$39,700.00	\$32,550.00	\$72,250.00	\$2,250.00

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ILLUSTRATION 5

OUR SCHOOL DISTRICT BUDGETED AND ACTUAL EXPENDITURES Six Months Ended December 31, 20XX

	Total 20XX- XX Budget	Actual Expenditures Year to Date	Projected Additional Expenditures to End of the Year		Projected Total for the Year	Projected Total is Over (Under) Budget
			Committed	Controllable		
General Fund:						
Instruction:						
Regular Programs:						
Elementary	\$48,250.00	\$25,950.00	\$20,000.00	\$1,500.00	\$47,450.00	\$800.00
Junior High	38,200.00	17,100.00	21,000.00	400.00	38,500.00	(300.00)
Senior High	50,000.00	23,700.00	24,500.00	800.00	49,000.00	1,000.00
Special Programs	20,000.00	8,900.00	10,000.00	250.00	19,150.00	850.00
Adult Continuing Education Programs	6,000.00	2,900.00	3,000.00	150.00	6,050.00	(50.00)
Support Services:						
Support Services--Pupils	6,000.00	2,750.00	3,000.00		5,760.00	250.00
Support Services-- Instruction Staff	3,000.00	1,800.00	800.00	300.00	2,900.00	100.00
Support Services--Business:						
Operation and Maintenance of Plant	15,000.00	8,000.00	9,000.00	2,000.00	19,000.00	(4,000.00)
Pupil transportation Services	10,000.00	5,500.00	7,000.00	600.00	13,100.00	(3,100.00)
Other General Support Services	30,000.00	13,500.00	15,200.00	1,400.00	30,100.00	(100.00)
Community Services	5,000.00	2,000.00	3,000.00		5,000.00	
Total General Fund	\$231,450.00	\$112,100.00	\$116,500.00	\$7,400.00	\$236,000.00	\$(4,500.00)

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ILLUSTRATION 6

OUR SCHOOL DISTRICT BUDGETED AND ACTUAL EXPENDITURES Six Months Ended December 31, 20XX

	Total 20XX- XX Budget	Actual Expenditures Year to Date	Projected Additional Expenditures to End of the Year		Projected Total for the Year	Projected Total is Over (Under) Budget
			Committed	Controllable		
Capital Outlay Fund:						
Instruction	\$5,000.00	\$5,000.00	\$	\$	\$5,000.00	\$
Supporting Services	100,000.00	20,000.00	85,000.00		105,000.00	(5,000.00)
Community Services	25,000.00	15,000.00	2,500.00	8,000.00	25,500.00	(500.00)
Cocurricular Activities	500.00	200.00		300.00	500.00	
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Total Capital Outlay Fund	\$130,500.00	\$40,200.00	\$87,500.00	\$8,300.00	\$136,000.00	\$(5,500.00)
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Special Education Fund:						
Instruction	\$4,000.00	\$1,800.00	\$2,000.00	\$100.00	\$3,900.00	\$100.00
Support Services	1,500.00	700.00	750.00		1,450.00	50.00
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Total Special Education Fund	\$5,500.00	\$2,500.00	\$2,750.00	\$100.00	\$5,350.00	\$150.00
	=====	=====	=====	=====	=====	=====
Bond Redemption Fund:						
Principal	\$10,000.00	\$5,000.00	\$5,000.00	\$	\$10,000.00	\$
Interest	4,875.00	2,500.00	2,375.00		4,875.00	
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Total Bond Redemption Fund	\$14,875.00	\$7,500.00	\$7,375.00	\$ 0.00	\$14,875.00	\$ 0.00
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Food Service Fund:						
Breakfast Program	\$10,000.00	\$4,300.00	\$5,100.00	\$	\$9,400.00	\$600.00
Type A Lunch Program	40,000.00	18,500.00	23,400.00	500.00	42,400.00	(2,400.00)
Special Milk Program	10,000.00	4,100.00	5,300.00		9,400.00	600.00
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Total Food Service Fund	\$60,000.00	\$26,900.00	\$33,800.00	\$500.00	\$61,200.00	\$(1,200.00)
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